

A local association of employees organized exclusively for recreational purposes operates a gasoline station on property owned by the employer of its members to provide funds in addition to dues income for its recreational activities. Sales are limited to its members and to the employer, and income is used exclusively for members' recreation. Held, neither the operation of the gasoline station, nor the selling of gasoline and oil to the employer company adversely affects its qualification for exemption since all of its income is used for recreational purposes, and income from sales to the employer of its members is considered a form of employer support of the association. The organization is therefore exempt as a local association of employees described in section 501(c)(4) of the Internal Revenue Code of 1954.

Advice has been requested whether an employees' association organized exclusively for recreational purposes which operates a gasoline station to supplement its dues income under the circumstances described below may qualify for exemption from Federal income tax as an organization described in section 501(c)(4) of the Internal Revenue Code of 1954.

The organization was incorporated as a nonprofit corporation, for recreational purposes, with membership limited to persons who are employees or former employees (pensioners) of a company in a particular locality. Its activities consist of providing recreation through the sponsorship of a basketball league, bowling league, bridge club, golf tournaments, square dancing, holiday parties, etc., for its members. It also maintains and operates a gasoline station, located on property leased from the company.

Sales are limited to members and the company. The organization's income is derived from membership dues, ticket sales to various recreational functions, and gasoline and oil sales. Expenditures are for recreational activities and for the operation of the gasoline station. Approximately 50 percent of the income from gasoline and oil sales is derived from sales to the employer company. All of the net earnings of the organization are required to be used for its recreational activities; no part is to be distributed to individual members.

Section 501(c)(4) of the Code exempts from Federal income tax local associations of employees, the membership of which is limited to the employees of a designated person or persons in a particular municipality, and the net earnings of which are devoted exclusively to charitable, educational, or recreational purposes.

In determining this organization's qualification for exemption from tax under the foregoing provision, two factors to be considered are (1) whether the organization may engage in a

"service station" type of operation, a business ordinarily carried on for profit; and (2) whether the realization by the organization of a substantial portion of its income from the sale of oil and gasoline to the employer of its members would adversely affect its qualification for exemption.

With respect to factor number (1) a local association of employees may qualify for exemption under section 501(c)(4) of the Code notwithstanding that it engages in a business of a type ordinarily carried on for profit if, as in this case, such business is with its members, and the net earnings of the business enterprise are used exclusively for charitable, educational, or recreational purposes.

As for factor number (2) an employer may make contributions to an association of its employees to enable the organization to carry on its activities. Where it is found that, as in this case, an association of employees derives a substantial portion of its income from doing business with the employer of its members, exemption will not be denied since profits derived from doing business with the employer may be regarded as a form of employer support of the organization.

Accordingly, this organization is entitled to exemption from Federal income tax as a local association of employees described in section 501(c)(4) of the Code.

An organization which considers itself within the scope of this Revenue Ruling must, in order to establish exemption under section 501(c)(4) of the Code, file an application on Form 1024, Exemption Application, with the District Director of Internal Revenue for the internal revenue district in which is located the principal place of business or principal office of the organization. See section 1.501(a)-1 of the Income Tax Regulations.